

## **Rock in Rio Business Project:**

***“Where to Go Next?”***



## **WORK PROJECT REPORT**

### **Mexico City: An Opportunity**

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Masters in Management #1293

*This Work Project is a complement of the CEMS Rock in Rio Business Project, “Where to Go Next” which final objective consisted in recommending three new cities for Rock in Rio to expand to. This individual report focuses on the development of the reasons behind choosing Mexico City as well as on recommending Rock in Rio with an implementation plan to enter this market. Moreover, it includes a brief description of the context and the results of the project as well as a reflection on the academic and personal learning experienced through the semester. This report was built under the required structure of CEMS and NOVA SBE and resorting to the academic background/knowledge of the student and to the experience gathered throughout the elaboration of the Business Project.*

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## 1. Context

### 1.1. Rock in Rio

Rock in Rio (RiR) was created by Roberto Medina in 1985, in Brazil, as a strategy to launch a new beer. Today RiR is the biggest music and entertainment event in the world: a communication platform that uses music as a vehicle to generate massive awareness for its own brand and all sponsors' brands. It already counts with 13 editions held in Rio de Janeiro, Lisbon and Madrid, putting together the most appealing line-ups in a unique venue – “City of Rock”. The event success stands upon three main pillars: the support of the local government (and a provision of a location), the association with media partners and the collection of strong sponsors. Since 2001, Rock in Rio also expanded its vision under the communitarian mission “Better World”. For detailed information on RiR's history, business model and the City of Rock, see *appendix 1.1*.

### 1.2. Market Overview

Due to its focus on brands and communication, RiR does not operate exactly in the same market as the music festivals. However, for the customers, RiR is compared with other festivals regarding the opportunity cost of investing in live music<sup>1</sup>, competing to provide the best line-up. As for the values in this market, the global spending on music is expected to grow at a rate of 2% until 2017 with the revenues from live music exceeding the revenues from recorded music (PwC, 2013). Also, an increase of 4,2% is expected in total sponsorships spending by global companies (IEG Sponsorship Briefing, 2013). The effect of recession and the rising artists' fees are considerable threats to the festivals business. A detailed analysis of the market is provided on the *appendix 1.2*.

### 1.3. Current Client Situation

Being a unique communication event, RiR achieved massive awareness and loyalty, with media coverage comparable to the 2004 European Football Cup (Marktest, 2010) and selling out without the line-up announced. In 2015 RiR is taking a major step to its globalization by entering the United States (RiR Las Vegas) and willing to continue its

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<sup>1</sup> People attend festivals mainly because of the music. The line-ups are the criteria to choose a festival (European Festival Awards 2013)

expansion to other global cities. The Madrid edition ended below RiR's financial expectation (*appendix 1.3.(3).*) which shows the need of creating a more meticulous internationalization framework in order to assess the market potential of a city and to successfully establish a RiR festival.

#### **1.4.The Business Project Challenge**

The challenge of the Business Project “Where to Go Next” was to understand the main determinants of the RiR's international strategy, and to propose a reliable and market-based model that could facilitate the evaluation of potential locations and the recommendation of the most promising ones for RiR to go next.

#### **1.5. Methodology and Summary of Conclusions**

The methodology followed to create a market potential model and to recommend the next cities for RiR was composed mainly by five steps: 1) the definition of the variables to enter the model (15) – and their relative importance (weights) – after recognizing some key success determinants regarding the market, the context and RiR's business model; 2) the selection of countries: from the 80 European and American countries RiR requested to be analyzed, only 25 were included in the model after complying with 8 minimum prerequisites according with RiR's expansion strategy 3) the research of information to fill the model and the elaboration of a countries' ranking; 4) the assessment of the potential cities from the most attractive countries and the different scenarios considered; 5) the qualitative analysis and comparison of the considered cities and the recommendation of those to enter. On this last phase, 11 cities<sup>2</sup> were considered for a deeper analysis. The next destination for RiR was expected to have a high level of richness and growth potential, weak competition and strong music consumption and investment, desire from the government to host events like RiR and to support them, good infrastructures and potential to collect sponsors and to partner with strong media channels. Based on these criteria, information was collected to allow comparison among the cities. As a result, it was suggested for RiR to enter in Toronto, Mexico City and Stockholm. The methodology phases, data researched and results obtained are available in more detail in the *appendix 1.5*.

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<sup>2</sup>Paris, Berlin, Vienna, Stockholm, Istanbul, Mexico City, Santiago of Chile, Bogotá and Medellin, Toronto and Montreal

## 2. Mexico City: an opportunity

In this individual report, following the Business Project's described methodology and results, a deeper examination of Mexico City as a potential market for RiR as well as recommendations for the festival implementation in this location will be presented.

### 2.1. Why Mexico City?

#### 2.1.1. *Original approach and main limitations*

Mexico City was considered for analysis by the group due to the attractiveness of Mexico, detected through the score-model. Considering this methodology, some limitations arise. First of all, the lack of information, the need to use proxies for some variables and the comparison of data from different periods challenge the reliability of the score-country model. Secondly, the variables and the respective weights were selected based on research and discussions with RiR but without a scientific reasoning, lacking statistical correlation with the success of the previous festival editions. Afterwards, the approach followed to evaluate the potential of Mexico City consisted on understanding the opportunities observed in the city's market and the macroeconomic environment (weather, tourism, growth, regulations, infrastructures, safety) (*appendix 1.5.5*). However, the final comparison of cities was subjective and based on reasonable assumptions without any quantitative approach. All the mentioned limitations require a critical reading of the model and a flexible analysis of the results.

Nevertheless, the major limitation found in this model was the excessive focus on the macroeconomic and market factors, without looking to the internal sphere. The absence of a profit-estimation analysis, the oblivion of the consumers' needs and preferences and the disregard of RiR's competitive advantages and positioning in the industry represent a big flaw in the determination of "Where to Go Next".

#### 2.1.2. *An holistic<sup>3</sup> strategy for choosing a Market*

According with Campbell Macpherson & Associates, a good strategy is anchored in reality (internal and external), is customer-centric, is aspirational yet achievable, is based on an honest appraisal of future risks, overcomes obstacles and includes

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<sup>3</sup> "A strategy developed by thinking about the business as a whole, its place in the broader economy and society and in the lives of its customers. Attempt to develop and maintain multiple perspectives of the company's activity" (Business Dictionary).

implementation. It is under this perspective that a holistic strategy will be developed in the next sections. All the models, frameworks and data provided are detailed by order in the sections of *appendix 2.1*.

Resorting to F&F<sup>4</sup> (2011) and their Competences for Internationalization model, companies operate in three main contexts: the strategic and internal environment, the competitive environment and the local environment.

Looking to the strategic and internal environment, an assessment of RiR's unique resources, competences and core strategy can be done. By offering the most diverse and high-end line-ups, the unique concept of combining brands and music in a massive entertainment event and considering the accumulated success of each previous festival, the organizational quality, the reputation, the word of mouth effect and the loyalty levels, RiR established an exclusive and differentiated positioning<sup>5</sup>. As for its strategy, RiR intends to become a global brand, providing a unique platform of communication and entertainment and aiming for a "better world". For this, the company is looking for a market that could bring opportunities compatible with its business model.

In this sense, it is essential to study the competitive environment of the market in order to appropriate value from the rivals and to create value with the potential partners. Resorting to the Porter 5 Forces and National Diamond tools<sup>6</sup>, it can be seen that Mexico City presents low rivalry given that Vive Latino (similar concept but focused on Latin Music) and Corona Capital (similar line-ups but smaller and non-brand focused festival) do not present considerable threats in such a vast market (*appendix 1.5.5.– Mexico City*). However, it cannot be assured that no entrants will get in the market<sup>7</sup>. As for suppliers, the ones with considerable power are the artists (shows and image suppliers) and the media companies (suppliers of media coverage). As for the buyers, they divide into companies that buy advertising space and final consumers. Regarding the first, there are many investment opportunities for festivals, either from established companies<sup>8</sup> or from brands entering in Mexico soon<sup>9</sup> - no considerable power for

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<sup>4</sup> Alfonso Fleury and Maria Tereza Fleury – *appendix 2.1, figure 17*

<sup>5</sup> The positioning of a company determines 32% of its profits while the choice of the industry determines 19% (Gupta and Gavindrajan, 2000)

<sup>6</sup> Industry analysis frameworks

<sup>7</sup> Normally RiR occurs in a location at each 2 years. Meanwhile, it is hard to avoid new entrants

<sup>8</sup> Coca-Cola and Danone are examples of companies that already sponsored music festivals

<sup>9</sup> "Pepsi said it would invest \$5bn in Mexico over the next five years" (Financial Times, Jan 24<sup>th</sup> 2014)

sponsors. As for consumers they do not present a strong power in the industry however RiR should try to ensure that they do not opt by a substitute<sup>10</sup>. It is also important to calculate the demand potential in the competitive environment: in Mexico, people listen a lot to commercial music, have high admiration for international renowned artists and some travel to the US to attend Coachella<sup>11</sup>. Additionally, Mexico won a contest assessing the next city to where RiR should go, enforcing its will to host the event.

Finally, an analysis of local environment (sociopolitical structure, local endowments and culture) should also be pursued. For the first two, the PESTEL<sup>12</sup> analysis followed during the Business Project can be used. The conclusions from this analysis are summarized on the *appendix 2.1.3*. Analyzing the Mexican culture with the Hofstede dimensions (*appendix 2.1.4*), it appears that Mexicans can fit an event like RiR.

Considering Mexico City's business opportunities and RiR's core competences, recommendations can be made to help implementing a strategy that may successfully position RiR in the Mexican market.

## 2.2. RiR Mexico City

### 2.2.1. Timing and Mode of Entry

Considering the awareness that Las Vegas edition will generate on the neighbor countries, Canada and Mexico will tend to be more receptive to host a RiR festival. However, given the different security levels of these cities and the company's strategy of expanding in the Americas and Europe alternately, it was concluded that Mexico City should be the last city to enter, in 2019. As for the mode of entry, the selection of the best strategy will highly depend on the government support, sympathy and facilitation of resources. In any case, it is relevant the potential of SFX<sup>13</sup> to help in implementing the festival but, most of all, RiR should partner with OCESA<sup>14</sup>, owner of 13 entertainment venues in Mexico City and leader on the event promotion. It has a strong

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<sup>10</sup> There are no clear substitutes however consumers might compare RiR with a week of holidays or other concerts or a new investment transforming these products into substitutes given that all provide self-indulgence to the customer

<sup>11</sup> One of the world's biggest music festival, hosted in California

<sup>12</sup> Political, Economic, Social, Technological, Environmental, Legal

<sup>13</sup> Owner of half of Rock in Rio's capital as showed in *appendix 1.1.3*

<sup>14</sup> Market leader in out of home entertainment in Mexico, Colombia and Central America and one of the most important in Latin America with an unique model of vertical integration.

power influencing the government and local authorities<sup>15</sup> and can facilitate RiR with the knowledge and the network required to successfully implement a festival in Mexico. This could be done through a collaborative arrangement or an actual joint venture. Also, RiR can establish a representative office to ease organization and control and to aim for the long term in this market. Lastly, RiR could enter the country with licensing agreements<sup>16</sup> established with the sponsors and launched before and during the event.

### ***2.2.2. Date, Length of Festival and Location***

Considering the holidays' calendar<sup>17</sup>, the city weather and the dates of competitor festivals (*appendixes 1.5.5 and 2.2.1*) as well as the fact that many people travel in the winter, it is suggested to do the festival in November. Moreover, analyzing the competitors length, the market dimension of Mexico City, the importance of music for the population<sup>18</sup> and the previous success of Brazil edition (7 days), it is recommended that RiR enters Mexico with a 6 days festival. As for the location, in Mexico City most of the concerts and festivals take place in stadiums or arenas with seats. However, RiR looks for a free land to build its own "city" thus it is suggested Texcoco<sup>19</sup>, a large underexploited area that the government is interested in developing.

### ***2.2.3. Expected Attendance and Price***

To calculate the attendance of the festival, a benchmark with competition and an assessment of demand are required: Corona Festival hosts 65.000-80.000 people per day and Vive Latino receives around 70.000 daily, however these are almost niche festivals. When entering in Mexico, RiR should try to combine both music styles (Latin and international rock and commercial), in order to get a bigger slice of the market, also boosted by the awareness created by Las Vegas and the lack of similar festivals. Also, if Rio de Janeiro edition sold out with 85.000 people a day, Mexico City (with a higher population) can expect more. It is though suggested that 100.000 will attend the festival. By following a competitive strategy of differentiation, RiR can stimulate consumers to

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<sup>15</sup> There are even some accusations of corruption among OCESA and the local authorities

<sup>16</sup> 350 licensed products generated R\$2,1 billion in Brazil, in 2013

<sup>17</sup> June, July, Easter and Christmas

<sup>18</sup> 16% of the Mexicans play and instrument and 13% watched at least a live concert of international music per year – Encuesta Nacional, Conaculta, 2012

<sup>19</sup> One hour from the city center, the government is trying to develop it, with modern infrastructures, a beautiful lake and the future "world's biggest ecological park"



have a higher willingness to pay for its product, allowing the brand to reach a leadership on price. The show prices in Mexico are very segmented (mainly according with the seating area), averaging around 50€. However, the line-ups of these concerts are not comparable with the ones RiR presents, thus the willingness to pay for this festival could be bigger<sup>20</sup>. Averaging the prices practiced in Mexico and adding a markup associated with additional value of the product, the recommended price for the first edition of RiR Mexico City is MXN\$1,200 (67,4€). However, RiR could present a special price for students and elderly, with a discount of 10%, and a price cut in exchange for a charity donation<sup>21</sup> - two common practices at the majority of Mexican events. This strategy could show the RiR concern with the society, being also an effective way to attract more people to the festivals and to have media coverage.

#### **2.2.4. Local Partners and Sponsors**

RiR's strategy is not a "lonely road" and its success is strongly explained by the establishment of successful sponsorship agreements<sup>22</sup>, by partnering with effective media companies<sup>23</sup> and by having the government support in installing the festival<sup>24</sup>. In this sense, some Mexican media companies can be considered by RiR (*appendix 2.2.2*) but Canal de las Estrellas<sup>25</sup> might be the perfect partner due to its audience and generalist programming. As for main sponsors, some companies are already investing in Corona Capital and Vive Latino thus RiR could try to partner with these main competitors. Many can be approached (*appendix 2.2.3*) but Pepsi<sup>26</sup>, BBVA bancomer<sup>27</sup>, Tecate<sup>28</sup> and Virgin Mobile<sup>29</sup> present high potential. Mexicans are very used to eat tacos and Vietnamese food and to drink beer in the main social events' food trucks<sup>30</sup> thus partnerships with brands in these sectors could also be done. As for local promoters, as referred in the mode of entry, RiR should partner with OCESA in order to get access to

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<sup>20</sup> "that lineup for sure will drive people crazy. If there are some bands that people like all together, they are willing to pay up to 120€" – Phonnz Alfonso

<sup>21</sup> tax deductible

<sup>22</sup> In 2013 edition, Trident and Heineken paid more than 2M€ (R\$7M) and Itau invested 4M€ to participate in this massive event of communication

<sup>23</sup> In Lisbon, RiR generated 128 hours of TV news and 20 million euros of press coverage value

<sup>24</sup> In Lisbon, the local government facilitated the Belavista Park to host the festival

<sup>25</sup> open Tv channel owned by the giant group Televisa and watched daily for about 85M people in Mexico

<sup>26</sup> Mexico is the biggest consumer of Coca Cola, sponsor of both Corona Capital and Vive Latino. PepsiCo wants to penetrate the market.

<sup>27</sup> Biggest bank in Mexico

<sup>28</sup> Mexican beer owned by Heineken, the main sponsor of Rock in Rio 2013

<sup>29</sup> "Virgin Mobile will invest 41,5mdd" in Mexico, El Economista, May 2014

<sup>30</sup> Cultural experience shared by Phonnz Alfonso – interviewed Mexican student

government support, local knowledge and networks and could also negotiate some incentives with ProMexico. Moreover, a partnership with Ticketmaster is recommended given that this company leads on the online ticket selling<sup>31</sup>.

### **2.2.5. Branding and Communication**

Despite the success of RiR phenomenon in Rio de Janeiro and Lisbon, its expansion to a new city presents a great challenge in terms of branding and communication. Resorting to Brand Management frameworks (*appendix 2.2.4*), it is suggested for RiR to create a strong brand identity, clearly transferrable to its positioning in order to build on a brand image that might allow RiR to achieve strong equity. It is suggested that the main brand elements remain unchanged<sup>32</sup> however a Mexican spokesperson/ambassador can be used to convey the image of RiR and to rapidly reach the population. Moreover, given RiR's "Better World" mission, performance and relationship marketing (via social responsibility and interaction with partners) could be boosted. As for advertising, TV, Radio and OOH might be the best channels to enter, considering their penetration in Mexico (*appendix 2.2.5*). Given the expected growth in internet penetration, interactive advertising could also be created. In order to start creating brand awareness in advance, RiR should start its Public Relations strategy one or two years in advance (2017), by inviting partners and media to communicate the concept and to create buzz around the arrival of the brand in Mexico.

### **2.3. Value Creation**

In order to conclude the potential analysis of Mexico City, a value estimation should be made. RiR's festivals create value mainly on three angles: economic, social and ecological (*appendix 1.3.1*). As for the part appropriated by the company, it can be seen that the main profit drivers are the revenues from tickets and the sponsors, in a structure composed mainly by fixed costs. The calculations and assumptions made for the profit estimation can be seen on the *appendix 2.2.6*. Overall, Mexico City appears to offer high rewards for RiR with limited risks, showing potential to be a destination for RiR to go next.

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<sup>31</sup> concert tickets are the 2<sup>nd</sup> biggest source of revenue in the Mexican e-commerce market

<sup>32</sup> For consistency and inter-country brand awareness

### 3. Reflection on Learning

#### 3.1 Previous knowledge learned from your Master program

Given that the Rock in Rio Business Project was mainly focused on international strategies, the problem solving approach of 1) defining a problem, 2) building hypothesis, propose and testing solutions, 3) creating a sustainable implementation plan; was recruited from previous master courses such as Marketing Research or Strategy. From this last course, I also applied the scenario analysis and the importance of observing a situation from all the possible prisms, as well as the PESTEL and SWOT frameworks, very useful to analyze the context of a RiR, its internal competences and the market opportunities/threats. Moreover, I recalled from the Marketing Research course the importance of starting a project with a secondary research – very insightful for RiR. Besides the focus on the management field, this project also allowed me to use some knowledge from Statistics and Finance. Finally, I used some learning from the AT Kearney Skill Seminar “Presentation Skills” for the final presentation to Roberto Medina given that it required an adaptation of language, posture and presentation style.

#### 3.2. New knowledge

As for new knowledge, I strongly developed the ability to conduct business meetings, defining in advance the information needed, listening the other party and understanding the proper time to make certain questions or comments – experienced on the meetings and contacts done with Rock in Rio. Moreover – and the most interesting – I learned about a completely different industry and worked with a very simple (but very challenging and sensible) business model when comparing with the brands or companies I had studied in my academic and professional experience.

#### 3.3. Personal experience

##### *i. Key strengths & weaknesses*

Over the last two years, during the CEMS and NOVA masters’ programs, I had several opportunities to make a self-reflection about my strengths and weaknesses. In this sense, rather than making an individual evaluation of my competences, I thought it would be more valuable and fair to get the perception of my colleagues, which worked with me in the last 4 months. To collect their opinions, I created an anonymous online

survey, asking for my strengths and weaknesses on two separated dimensions. As for personal attributes, attitudes and communication skills, it was mentioned: great organization and easiness to clearly express opinions, patience in helping the others as well as the concern of summing up on any discussion. Regarding the working style, it was mentioned the motivation<sup>33</sup>, the high commitment<sup>34</sup> and the extreme attention to detail. However, it was also highlighted that sometimes this strength leads to an excessive perfectionism, a too serious attitude, a need for having the whole control and an inability to delegate and to trust other's work – weakness that must be improved.

## ***ii. Improvement Plan***

The weaknesses mentioned by my colleagues match the self-perceptions I had. Throughout this master program I suffered particularly from my excessive perfectionism, mostly in periods of over workload. My efforts in the sense of improving started with a “priorities agenda” done in order to focus on the most important things first, and only looking for specific details or secondary problems when (and if) there is time. In the future, I will continue my efforts to begin every group work with a fair split of tasks as well as a definition of individual work boundaries and deadlines. I tend to naturally offer my help to the others but I will make an effort to not over control the other's work. Finally and mostly important, I have to show trust on other people's work and to find positive ways to deal with failure.

## **3.4. Benefit of hindsight: what added most value? What should have been done different**

Throughout this business project what I found most valuable was the team diversity<sup>35</sup>, which led to an everyday useful complementation of experiences. Moreover, the genuine interest in the entertainment industry and the opportunity to work with a brand which I deeply admire ensured my motivation during the whole project and my will to excel. Overall this project was a very positive experience that allowed me to apply some concepts learned during the MSc program but also to improve my working and personal skills to better prepare for the times ahead.

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<sup>33</sup> Mentioned adjectives: “perseverant”, “curious”, “motivated”

<sup>34</sup> Mentioned adjectives: “hard worker”, “determined”, “reliable”, “proactive”

<sup>35</sup> Different personalities, academic backgrounds, culture and working style

#### **4. References**

## **5. Appendixes**